UNITED NATIONS

Framework Convention on Climate Change

Distr.
GENERAL

FCCC/SBI/1997/18
30 September 1997

Original: ENGLISH

SUBSIDIARY BODY FOR IMPLEMENTATION
Seventh session
Bonn, 20-29 October 1997
Item 9 of the provisional agenda

ADMINISTRATIVE AND FINANCIAL MATTERS

Financial performance of UNFCCC: Contributions and expenditures in 1996 and 1997, and forecast for the biennium 1996-1997

Note by the Executive Secretary

CONTENTS

		Paragraphs	Page
I.	INTRODUCTION	1 - 6	3
A.	Mandate	1	3
B.	Scope of the note	2 - 5	3
C.	Possible action by the Subsidiary Body for Implementation	6	3
II.	TRUST FUND FOR THE CORE BUDGET OF THE UNFCCC		7 - 374
A.	Status of contributions	7 - 9	4
B.	Expenditure and delivery	10 - 35	4
C.	The working capital reserve	36 - 37	10

		Paragraphs	Page
III.	TRUST FUND FOR PARTICIPATION IN THE UNFCCC PROCESS	38 - 41	10
IV.	TRUST FUND FOR SUPPLEMENTARY ACTIVITIES	42 - 47	11
	A. Regular contributions	42 - 43	11
	B. Special contribution of Germany - the "Bonn Fund"	44 - 47	11

I. INTRODUCTION

A. Mandate

1. The first report on the financial performance of the United Nations Framework Convention on Climate Change (UNFCCC) was submitted by the Executive Secretary to the Conference of the Parties (COP) at its second session (see FCCC/CP/1996/7). The COP subsequently requested that the Executive Secretary submit to the COP at its third session (COP 3), through the Subsidiary Body for Implementation (SBI), a second report on the financial performance of the UNFCCC in the biennium 1996-1997 (see decision 16/CP.2). This note responds to that request.

B. Scope of the note

2. This note contains information on income, expenditure, and other related budgetary issues for all three of the UNFCCC trust funds: the Trust Fund for the Core Budget; the Trust Fund for Participation in the UNFCCC Process; and the Trust Fund for Supplementary Activities. The note should be read together with document FCCC/SBI/1997/INF.7, which contains supporting tables.

3. In relation to the Trust Fund for the Core Budget, this note contains information on income and expenditure in 1996 and 1997. It also contains a brief report on programme delivery, and explanatory notes on areas where the actual levels of expenditure have differed significantly from the levels approved by the COP (see section II).

4. Income and expenditure data, short activity reports, and information on related issues are also presented for the Trust Fund for Participation in the UNFCCC Process and the Trust Fund for Supplementary Activities (see sections III and IV, respectively).

5. All expenditure information reflects expenditures recorded in the official accounts through 31 July 1997. In some cases, expenditures to the end of 1997 have been projected.

C. Possible action by the Subsidiary Body for Implementation

6. The SBI may wish to recommend a decision to the COP for adoption that:

(a) Takes note of the information provided in this document and the supporting tables;

(b) Approves the creation of a new trust fund for the special annual contribution of DM3.5 million from the Government of Germany to finance events in Germany (see paragraphs 44-47), and requests the Executive Secretary to request the Secretary-General to establish the new trust fund, to be managed by the Executive Secretary;

(c) Urges Parties that have still not paid their 1996 and/or 1997 contributions to the core budget to do so without delay;

(d) Requests the Executive Secretary to submit to the COP at its fourth session, through the SBI, as appropriate, a final report on financial performance in the biennium 1996-1997, including audited financial statements, and initial financial performance in 1998; and

(e) Approves transfers between the main appropriation lines to cover over-expenditures, for the Policy-Making Organs programme and the Implementation and Planning programme, in excess of the 15 per cent transfer within each of the main appropriation lines that the Executive Secretary is at present authorized to make (see decision 17/CP.1, para. 5).

II. TRUST FUND FOR THE CORE BUDGET OF THE UNFCCC

A. Status of contributions

7. As of 31 August 1997, contributions to the UNFCCC core budget trust fund amounted to $10,386,691, or 75 per cent of the biennial total. This total represents contributions paid in full for both years of the biennium by 46 Parties, and in part by 33 Parties. There are 87 unpaid contributions for 1996 (totalling $0.372 million) and 110 unpaid contributions for 1997 (totalling $3.877 million). Further details on the status of contributions can be found in table 2 in document FCCC/SBI/1997/INF.7.

8. The Executive Secretary would like to call Parties' attention to the serious cash flow problems that have arisen as a result of late payment of contributions to the core budget. At the time of writing, the largest contribution had just been received, and four of the ten largest contributions were still outstanding, these four contributions amounting alone to 26 per cent of the 1997 budget. **The Executive Secretary urges all Parties which have not paid their contributions for the past and/or current year to do so as soon as possible. He also requests all Parties to bear in mind that contributions to the core budget are due on 1 January of the year in question.**

9. Since the last financial performance report, ten States ratified or acceded to the Convention (six in 1996 and four in 1997), bringing the total number of Parties to 167. In accordance with standard practices of the United Nations, contributions from new Parties are pro-rated for the year in which they become Parties.

B. Expenditure and delivery

1. Secretariat-wide overview

10. Actual expenditures recorded through 31 July 1997, plus estimated expenditures to the end of 1997, total $11,122,300, an amount equivalent to approximately 76 5 per cent of the total expenditure level approved by the COP at its second session (COP 2) (see decision 16/CP.2). Tables 3(a) and 3(b) in document FCCC/SBI/1997/INF.7 contain breakdowns of recorded expenditure by programme and object of expenditure, respectively. This expenditure pattern is roughly in accord with the contributions described in paragraph 7 above, and reflects the Executive Secretary's desire to exercise prudence in the financial management of the Convention funds

11. **No additional resources are requested for the biennium. There are no adjustments from the 1996 and 1997 figures approved at COP 2.**

(a) Staff costs and issues

12. This reporting period has seen an unusually high vacancy rate at the secretariat. As was reported to COP 2 (see FCCC/CP/1996/7, para. 19), this situation can be attributed predominantly to cash flow uncertainties and the losses in personnel resulting from the move to Bonn. These gaps in the secretariat's staff were filled largely by short-term staff members and consultants, which led to higher expenditure levels for these items than originally estimated. It is anticipated, however, that most vacant posts will be filled by the end of 1997.

13. As was outlined in the previous financial report (see FCCC/CP/1996/7, paras. 35-36), the relocation to Bonn required the reassignment of many staff members to different tasks -- either to take up move-related tasks or to ensure that key activities continued throughout the transitional period. A formal redeployment of posts or restructuring was deemed by the Executive Secretary as unnecessary. The experiences of the past two years were, however, used as the basis for preparing the new staffing plan and structure agreed to by the SBI at its sixth session (see FCCC/SBI/1997/16, paras. 27-28).

14. Currently, no core budget posts are being funded through bilateral arrangements with governments and organizations. In 1996, contributions from governments were used to fill four such posts, but by the end of that year, all contributions had either ended or been shifted to supplementary funding. The few staff members who continue to be provided bilaterally to supplement the secretariat's core staff are all scheduled to remain in Bonn only through the middle or end of 1998.

(b) Other costs and issues

15. As a result of under-staffing, travel costs during this reporting period have been somewhat lower than anticipated. Information technology-related requirements have been

higher, due to the need for additional work stations and software licenses and the corresponding need to upgrade the network and web server facilities. Replacement of some obsolete equipment has also been necessary. Expenditure for common services (included under the line item for 'other expenditures') has been lower than originally planned, based on actual experience in Bonn and delay in receipt of invoices.

2. Policy-Making Organs

16. The COP and all four of its subsidiary bodies met during a two-week session in July 1996 at Geneva. A total of 147 Parties attended, in addition to 14 observer States and 135 observer organizations (including both intergovernmental and non-governmental organizations). The Conference was attended by 1,077 delegates and 647 observers. The subsidiary bodies have subsequently met during three additional two-week sessions as follows:

(a) December 1996 (Geneva; 130 Parties, 6 observer States, 103 observer organizations; total of 516 delegates and 337 observers);

(b) February/March 1997 (Bonn; 130 Parties, 9 observer States, 113 observer organizations; total of 540 delegates and 326 observers); and

(c) July/August 1997 (Bonn; 136 Parties, 9 observer States, 125 observer organizations; total of 615 delegates and 512 observers).

17. As a result of four sessions being held in 1997 (instead of two, as foreseen during discussion of the programme budget for the current biennium), expenditures relating to policy-making organs have been approximately 19 per cent higher than anticipated.[1] This exceeds the authority granted to the Executive Secretary to increase the appropriation by up to 15 per cent (see decision 17/CP.1, para. 5). The Executive Secretary requests approval of the COP for a transfer from other budget lines to meet this expenditure.

18. The contribution to the Intergovernmental Panel on Climate Change (IPCC), set by the COP at a level of $310,600 for each year of the current biennium, was paid in November 1996 and will be paid later in 1997.

3. Executive Direction and Management (EDM) programme

19. The outputs of the Executive Direction and Management (EDM) programme have been consistent with those described in paragraph 12 of the annex to the programme budget submitted for the current biennium (see FCCC/CP/1995/5/Add.2). The Executive Secretary has provided on-going management and co-ordination of the secretariat's activities, as well as guidance to the

---

[1] Despite the heavy meeting schedule, overexpenditure was limited to 19 per cent due to economies of scale, internal reassignment of tasks, the hiring of temporary staff and consultants under other programmes, and chronic overtime of staff. This extraordinary situation would not be sustainable in the future.

Convention bodies. He has also represented the interests of the UNFCCC at various conferences and intergovernmental meetings. Much of his time, and that of his staff, has been devoted to overseeing the installation of the secretariat in Bonn.

20. Expenditures for this programme have not differed substantially from those approved by COP 2 (see decision 16/CP.2).

4. Communication, Assessment and Review (CAR) programme

21. The Communication, Assessment and Review (CAR) programme has co-ordinated the secretariat's support to the Subsidiary Body on Scientific and Technological Advice (SBSTA) and the Ad Hoc Group on Article 13 (AG 13). It has also produced documentation for submission to these bodies as well as to the SBI. Topics covered include methodological issues, cooperation with the IPCC and other international bodies, technology and technology information needs, and the establishment of a multilateral consultative process.

22. Regarding national communications, the programme has continued to conduct in-depth reviews of first national communications from Annex I Parties and publish reports. The reviews of the first series of communications have now been completed. The CAR programme has also distributed the national communications submitted by Annex I Parties, prepared the first compilation and synthesis report on second national communications from Annex I Parties, and prepared for in-depth reviews of second national communications. In addition, it has collected, published and disseminated greenhouse gas (GHG) inventory information, maintained a database of GHG inventories, and identified methodological issues related to reporting inventories, projections and policies and measures that need further elaboration.

23. The CAR programme has been working with rosters of experts nominated by governments in two areas, namely, technological issues and in-depth reviews. It has also co-ordinated support from other intergovernmental organizations, in particular the Organisation for Economic
Co-operation and Development, the International Energy Agency, and the United Nations Industrial Development Organization.

24. Expenditures for the CAR programme in this biennium have been much lower than previously anticipated. Most of this is attributable to the large number of vacant posts in this programme throughout the end of 1996 and the first half of 1997, which has resulted in lower staff and travel-related costs. This situation is now being corrected, and most vacancies are expected to be filled by the end of the year.

5. Financial and Technical Cooperation (FTC) programme

25. The Financial and Technical Cooperation (FTC) programme has co-ordinated the secretariat's support for the SBI. Since the last financial report, documents have been prepared and submitted to the SBI by this programme on a variety of topics, including the Memorandum of Understanding between the COP and the Council of the Global Environment Facility (GEF), the review of the financial mechanism, and secretariat activities to facilitate the provision of financial and technical support to non-Annex I Parties.

26. In addition, the FTC programme has represented the UNFCCC in meetings of the GEF Operations Committee and the GEF Council. Through its bilateral and multilateral partners, it has continued to facilitate the provision of financial and technical support to Parties for implementation of the Convention. It has made presentations at eleven regional workshops on issues related to the preparation of national communications. It has also submitted documents to the SBSTA on various subjects related to activities implemented jointly (AIJ) under the pilot phase, organized three workshops on methodological issues related to AIJ, and convened various meetings and events on AIJ in the margins of official sessions of the UNFCCC.

27. Expenditures for this programme in the current biennium have been substantially lower than predicted. As in the CAR programme, this is mainly due to the large number of vacant posts in this programme throughout the end of 1996 and first half of 1997.

6. Intergovernmental and Information Support (IIS) programme

28. During this reporting period, the Intergovernmental and Information Support (IIS) programme has managed all aspects relating to the organization of four official sessions of the Convention bodies. This has included liaising with the managers of conference facilities, editing and arranging for the translation and reproduction of all documentation, hiring and training temporary conference staff, liaising with the United Nations Office at Geneva for the provision of conference servicing, and registering delegates. These activities have become more resource-intensive since August 1996, given the physical distance between Bonn and the provider of conference services in Geneva, the limited availability of suitable conference facilities, and the number of sessions scheduled in 1997. Conference-related activities have been funded from a combination of sources: support costs have been covered from the core fund, while facility costs have been covered from the Bonn Fund (see paragraphs 44-47).

29. The IIS programme has also maintained the secretariat's information technology systems (including both permanent and temporary computer networks), and produced a variety of information products. The latter have included a redesigned World Wide Web site, a second CD-ROM, a CC:INFO/Web tutorial kit, a directory of participants in the UNFCCC process, a CC:INFO report on activities related to climate change, and a variety of information packages and brochures. Support costs for these activities have again been covered through the core fund, whereas individual specialized projects have been financed through supplementary funding.

30. The programme's ad hoc responsibilities relating to relocation, which consumed a large portion of its resources in 1996, ended once the secretariat and its staff were fully installed in Bonn. In order to allow IIS to dedicate more of its resources to conference and information support, the task of providing administrative support to the secretariat was shifted to a newly-created administrative unit (which operates under the auspices of the Implementation and Planning (I+P) programme).

31. Expenditure levels for IIS have been lower than expected for this biennium. This can be explained by the facts that two of the senior posts for the programme were vacant for over a year, that the task of secretariat-wide administration was transferred to the I+P programme, and that the generally high vacancy rate at the secretariat resulted in lower support costs.

7. Implementation and Planning (I+P) programme

32. The I+P programme has provided support for the Ad Hoc Group on the Berlin Mandate (AGBM), in the form of preparing documents, organizing informal consultations, and providing support to the Chairman. The AGBM-related workload, which has steadily increased throughout the biennium, is expected to consume much of the programme's resources to the end of 1997. The programme will additionally assume responsibility for the functions of secretary of COP 3, including support to the President and the Bureau and substantive arrangements for the plenary and the Committee of the Whole. The programme has also processed all proposed amendments to the Convention and provided support to the President of the COP in his consultations on the rules of procedure.

33. The I+P programme has also played an important role in the management of UNFCCC funds and, since August 1996, has assumed responsibility for the administration of the secretariat. Related tasks have included providing support to the Executive Secretary in the preparation of a programme budget for the biennium 1998-1999, and liaising with the Government of Germany regarding the host country agreement.

34. Expenditures relating to the I+P programme have exceeded earlier forecasts by 45 per cent. This is related to the addition of AGBM support and secretariat-wide administration to the I+P work programme (neither of which was envisaged when the original programme budget was put together). Much of the resources for administration are provided from funds made available for this purpose from the 13 per cent overhead charge paid to the United Nations. While discussions are continuing with the United Nations on the conditions applied to the use of these overhead funds, core budget funds have had to be spent for temporary staff to maintain day-to-day operations. It is hoped that these discussions will result in a reduction in I+P programme expenditures by transferring these to the overhead account.

35. In view of the situation described above, and pending the results of the discussions with the United Nations, the Executive Secretary requests approval of the COP for over-expenditure in the I+P programme.

C. The working capital reserve

36. The COP at its first session (COP 1) decided that a working capital reserve should be maintained within the Trust Fund for the Core Budget (see decision 15/CP.1, annex I, para. 14). The purpose of this reserve, the level of which is to be determined from time to time by the COP by consensus, is to "ensure continuity of operations in the event of a temporary shortfall of cash. Drawdowns from the ... reserve shall be restored from contributions as soon as possible." The level of the reserve was set at 8.3 per cent of estimated expenditure for both 1996 and 1997 (see decision 17/CP.1, para. 1, as confirmed in decision 16/CP.2, para. 6). The SBI at its sixth session recommended that the reserve should continue to be maintained at this level in 1998.

37. The working capital reserve currently amounts to $699,000 and, to date, no drawdowns have been necessary. Should outstanding contributions to the core budget not be forthcoming, it is likely that drawdowns will be necessary before the end of 1997.

III. TRUST FUND FOR PARTICIPATION IN THE UNFCCC PROCESS

38. As defined by COP 1, the purpose of this Fund is to finance the participation of representatives of developing-country Parties, particularly those that are least developed countries or small island developing States, and of other Parties with economies in transition, in sessions of the COP and its subsidiary bodies (see decision 15/CP.1, annex I, para. 15). By its decision 16/CP.2, the COP decided that the Fund could also be used to finance participants from eligible Parties in meetings of expert bodies convened by any of the Convention bodies and in intersessional meetings of the Bureaux of the Convention bodies, and for the participation of Bureau members in consultations or official meetings relating to the UNFCCC process. All expenditures are subject to the availability of resources. The current eligibility criterion for receiving support is that a Party's per capita gross domestic product was $5,500 or less in 1994. To assist in allocating scarce resources, a second criterion has recently been added. In the case that a Party's indicative share of the core budget was greater than $1,000 in 1996, its contribution for 1996 is to be paid in full to ensure eligibility in 1997.

39. This Fund benefited at the start of the biennium from a carryover of $1,169,251 from the special voluntary fund for participation and $287,500 from a contribution for COP 3. Additional contributions to the Fund during the biennium have amounted to $2,398,936 ($1,370,543 in 1996 and $1,028,393 in 1997). Net expenditure has totalled $2,245,554, representing funding for participation at five official sessions of the Convention bodies listed below:

(a) February/March 1996 (Bonn; funding offered to 114 Parties, 92 delegates financed);

(b) July 1996 (Geneva; funding offered to 116 Parties, 147 delegates financed);[2]

(c) December 1996 (Geneva; funding offered to 122 Parties, 84 delegates financed);

---

[2] Funds were available to finance participation of a second delegate from least developed country and small island developing State Parties.

(d) February/March 1997 (Bonn; funding offered to 123 Parties, 89 delegates financed); and

(e) July/August 1997 (Bonn; funding offered to 124 Parties, 93 delegates financed).

40. Funding has been offered to 104 Parties for the current session; related expenditures are expected to total about $400,000. For COP 3, it is anticipated that funding will also be offered to about 125 Parties. As has been the practice in the past, resources will also be made available for a second delegate from least developed country and small island developing State Parties to participate in the COP, should funding permit. Related expenditures are expected to total approximately $1,150,000 (including overhead charges and operating cash reserve, and reflecting travel costs and allowances higher than those for previous sessions of the COP).

41. Detailed financial data on this Fund is provided in table 4 of document FCCC/SBI/1997/INF.7.

IV. TRUST FUND FOR SUPPLEMENTARY ACTIVITIES

A. Regular contributions

42. During the biennium, contributions amounting to $2,296,493 have been received in this Fund ($1,277,072 in 1996 and $1,019,421 in 1997). Expenditure has totalled $515,251, net of overhead charges and operating cash reserve; obligated funds total a further $674,607. Activities financed from this Fund include the production of CC:INFO information products, the convening of two workshops on methodological issues related to AIJ, the development and production of a CC:INFO/Web tutorial kit (designed to assist Parties in the creation of national Web sites on implementation of the Convention), the organization of a CC:INFO/Web workshop, and the provision of staff support to the CAR, FTC and I+P programmes.

43. Additional financial information on the Trust Fund for Supplementary Activities can be found in table 5 of document FCCC/SBI/1997/INF.7.

B. Special contribution of Germany – the "Bonn Fund"

44. As part of its offer to host the secretariat, the Government of Germany pledged a special annual contribution to the UNFCCC to offset the costs primarily of organizing meetings and events in Germany. An overview of this contribution, which is referred to as the "Bonn Fund", is contained in table 6 of document FCCC/SBI/1997/INF.7.

45. The level of this contribution for 1996 was originally set at DM3,000,000, with an additional contribution of DM500,000 pledged to the Trust Fund for Participation in the UNFCCC Process. As a result of DM1,000,000 being deferred to 1997 and the contribution for participation increasing to DM630,000, the contribution for the year ultimately amounted to DM1,870,000. This funding, which is subject to standard overhead and working capital reserve charges, was used for organizing and servicing intergovernmental meetings (DM355,500), for

informal meetings and workshops (DM138,100), for climate change information products (DM243,500), and for infrastructure and logistics related to the relocation to Bonn (DM288,000).

46 In 1997, the level of the contribution was set at DM4,500,000. Based on actual and predicted expenditures, it is estimated that the bulk of this funding will be used to support the organizing and servicing of intergovernmental meetings (about DM3,142,400). Much smaller amounts will be used to support informal meetings and workshops (DM43,200), climate change information products (DM376,000), and for Bonn infrastructure (DM73,500).

47 The Executive Secretary considers that the creation of a separate, new trust fund for this regular annual contribution would greatly simplify day-to-day financial management of the secretariat. Subject to approval by the COP, such a trust fund could be established by the Secretary-General and managed by the Executive Secretary (see the financial procedures, decision 15/CP.1, annex I, para. 16). **The SBI is invited to recommend that such a trust fund be established.**